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Message Text

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FOR EB/ORF/FSE: BOSWORTH

E.O. 11652 GDS
TAGS: ENRG, OECD, DA
SUBJECT: IEA: DANISH DRAFT PAPER ON INWARD LONG
TERM INVESTMENTS IN INDUSTRIALIZED CONSUMER
COUNTRIES

WITH REFERENCE TO TELCON WITH BOSWORTH, DAN
NIELSEN OF FONOFF ASKED THAT WE TRANSMIT FOL
LOWING DANISH DRAFT PAPER ONINWARD LONG TERM
INVESTMENTS WHICH IS BEING PREPARED FOR AD HOC
GROUP ON FINANCIAL AND INVESTMENT ISSUES OF
IEA. DAN NIELSEN EMPHASIZED THAT PAPER DOES
NOT YET HAVE OFFICIAL STATUS AND THAT FONOFF
WOULD WELCOME ANY COMMENTS OR RECOMMENDED CHANGES
BOSWORTH WOULD WANT TO MAKE. TEXT OF DANISH
PAPER FOLLOWS:

I. BACKGROUND

THE SUDDEN MASSIVE OIL PRICE INCREASES AND
THE RELATIVELY LOW ABSORPTION CAPACITY OF OIL
PRODUCING COUNTRIES AS A WHOLE ARE RESULTING
IN AN OVERALL BALANCE OF PAYMENTS DISEQUILIBRIUM.
THE SITUATION IS CHARACTERIZED BY ON ONE HAND
THE ACCUMMULATION OF CONSIDERABLE SAVINGS WITHIN
THE PRODUCER COUNTRIES AND ON THE OTHER HAND
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DIFFICULTIES FOR THE CONSUMER COUNTRIES IN MEET

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ING THE CAPITAL REQUIREMENTS OF THER ECONOMIES.

CAPITAL FLOWS FROM PRODUCER COUNTRIES TO INDUSTRIALIZED CONSUMER COUNTRIES HAVE SO FAR BEEN CHARACTERIZED BY
- LARGE PLACEMENTS IN HIGHLY LIQUID ASSETS
- FLOWS OF FUNDS MAINLY TO THE EURO-MARKET AND TO A LIMITED NUMBEF OF INDISTRIALIZED CONSUMERCOUNTRIES

IF THIS TREND IS PERPETUATED IT MAY CREATE RISKS OF
- MASSIVE MOVEMENTS OF SHORTTERM FUNDS FROM ONE INDISTRIALIZED CONSUMER COUNTRY TO ANOTHER
- INCREASED DIFFICULTIES IN FINANCING NECES-SARY INVESTMENTS IN INDUSTRIALIZED CONSUMER COUNTRIES WHICH DO NOT ENJOY SUFFICIENT DIRECT INFLOWS OF FUNDS FROM PRODUCER COUNTRIES.
-COMPETITIVE OFFERS OF ADVANTAGEOUS TERMS BY CONSUMER COUNTRIES LEADING TO EXCESSIVE COSTS OF ACQUIRING CAPITAL.

II. OBJECTIVES

IT IS IN THE COMMON INTEREST OF PRODUCER AND CONSUMER COUNTRIES TO IMPROVE THE CHANCES OF A STABLE AND PROGRESSING WORLD ECONOMY PRODUCER AND CONSUMER COUNTRIES THEREFORE HAVE A COMMON INTEREST IN EXPLORING POSSIBLE CO-OPERATIVE MEASURES DESIGNED TO PROMOTE SAFE PLACEMENT OF THE NEW PRODUCER SAVINGS AND TO SATISFY THE CAPITAL REQUIREMENT OF THE CONSUMER COUNTRIES

IT WILL BE IN THE PARTICULAR INTEREST OF THE CONSUMER COUNTRIES THAT
-THE AVERAGE MATURITY OF PRODUCER COUNTRIES CAPITAL PLACEMENTS INCONSUMER COUNTRIES IS LENGTHENED,
- DIRECT FLOWS OF PRODUCER COUNTRIES FUNDS ARE DIVERSIFIED AMONG A GREATER NUMBER OF CONSUMER COUNTRIES AS WELL AS AMONG
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INDUSTRIAL SECTORS.
-CAPITAL IS PROVIDED ON REASONABLE TERMS
-THE LIBERALISATION OF CAPITAL MOVEMENTS AMONG CONSUMER COUNTRIES AS IT HAS DEVELOPED DURING THE PAST DECADES, IS NOT JEOPARDIZED

IT WILL BE IN THE PARTICULAR INTEREST OF PRODUCER COUNTRIES TO

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-OBTAIN SAFE AND PROFITABLE OUTLETS FOR
THEIR INVESTMENTS
-SEEK CAPITAL PLACEMENTS THAT OFFER A HEDGE
AGAINST LOSS OF REAL WEALTP DUE TO INFLA-
TION AND EXCHANGE RATE CHANGES

IT IS DIFFICULT TO ASSESS AT THIS TIME
TO WHICH EXTENT COMMERCIAL OR OTHER CONSIDER-
ATIONS MIGHT MOTIVATE PRODUCER COUNTRIES TO
CONCENTRATE DIRECT INVESTMENTS IN PARTICULAR
INDUSTRIAL SECTORS OR TO CONTINUE THE PRESENT
CONCENTRATION IN CERTAIN CONSUMER COUNTRIES.

III. MAIN ISSUES

A) STIMULTATION OF LONG TERM INVESTEMENTS IN
CONSUMER COUNTRIES

THE RAPID RISE IN THE RATE OF CAPITAL AC-
CUMULATION, LIMITED AVAILABILITY OF FINANCIAL
EXPERTISE AND RELATIVELY HIGH INTEREST RATES
ON THE SHORT TERM MARKET SEEM TO BE SOME OF
THE MAIN REASONS WHY A HIGH PROPORTION OF PRO
DUCER COUNTRIES FUNDS HAVE SO FAR BEEN PLACED
IN SHORT TERM ASSETS.

PROBLEMS RELATING TO PORTFOLIO AND DIRECT
INVESTMENTS MAY DIFFER. PLACEMENTS IN PORTFO
LIO COULD BE EXPECTED TO BE DIRECTED MAINLY BY
MARKET FORCES, WHICH ARENOW FAVORING SUCH
PLACEMENTS. ON THE OTHER HAND THERE MIGHT BE
SCOPE FOR SPECIAL COORDINATED EFFORTS TO ATTRACT
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DIRECT INVESTMENTS ALTHOUGH MARKET FORCES ARE
NOW INCREASING THE PROPORTION OF FUNDS PLACED
IN THIS WAY.

(THESE COULD INCLUDE
- ESTABLISHEMTN OF A FACILTY TO CHANNEL LONG
TERM INVESTMENTS ALONG THE LINES OF THE
INTERNATIONAL DIRECT INVESTMENT TRUST PRO
POSED BY GERMANY
-A RECIPROCAL UNDERTAKING BY CONSUMER AND
PRODUCER COUNTRIES TO PROVIDE FAIR TREAT
MENT WITH REGARD TO EXPROPRIATION TRANS
FER TAXATION LEGAL PROTECTION THE CAR
RYING OUT OF ORDINARY BUSINESS ACTIVITIES
ETC.)

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B) DIVERSIFICATION OF PRODUCER COUNTRIES IN
VESTEMENTS

THERE IS A NEED TO RECONCILE THE GENERAL
PRINCIPLE OF A LIBERAL NON-DISCRIMINATORY
ATTITUDE TOWARDS DIRECT INVESTMENTS WITH
THE NEED TO MONITOR PRODUCER INVESTMENTS
IN CERTAIN INDUSTRIAL SECTORS

IT IS IN THE INTEREST OF CONSUMER COUNTRIES
TO MAINTAIN THE ACHIEVED LEVEL OF CAPITAL
LIBERALIZATION AND TO ENABLE INDIVIDUAL
CONSUMER COUNTRIES TO INDENTIFY THE ULTIMATE
INVESTOR.

MOST INDIVIDUAL CONSUMER COUNTRIES HAVE
ALREADY PROPARED OR ARE PREPARING TO ESTAB
LISH LEGAL AND ADMINISTRATIVE MACHINERY
WHICH ENABLE THEM TO BE INFORMED OF AND
TO DECIDE UPON FOREIGN INVESTMENT REQUESTS

(TO MEET THE COMMON NEEDS OF CONSUMER COUNTRIES
THEY MIGHT CONSIDER

-THE ESTABLISHMENT OF A CO-OPERATIVE RE-
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GISTRATION SYSTEM ON PRODUCERS DIRECT
INVESTEMENTS IN CONSUMER COUNTRIES. SUCH
A SYSTEM SHOULD PROMOTE TRANSPARENCY
IN THIS FIELD.
A. A GENERAL AGREEMENT ON PRINCIPLE WITH
PRODUCER COUNTRIES CONCERING VOLUNTARY
ABSTENTIONS FROM OR LIMITATION OF IN
VESTEMENTS IN CERTAIN FIELDS OR ABOCE
CERTAIN LEVELS OF CONTROLLING INFLUENCE.)

C) AVOIDANCE OF COMPETITIVE INCENTIVES
UNCOORDINATED ATTEMPTED BY INDIVIDUAL CONSUMER
COUNTRIES TO ATTRACT PRODUCER COUNTRIES'
FUNDS AS DIRECT INVESTEMENT OR PORTFOLIO
PLACEMENTS THROUGH COMPETITIVE OFFERS OF
ADVANTAGEOUS TERMS MIGHT LEAD TO UNDESIRA-
BLE COMPETITION AND EXCESSIVE COSTS.

(THE SITUATION MIGHT CALL FOR
-THE ADOPTION OF AN "INVESTEMENT PLEDGE"
AMONG SONCUMER COUNTRIES TO REFRAIN FROM
UNDUE INCENTIVES TO ATTRACT CAPITAL FLOWS

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OR
-THE ESTABLISHMENT OF A "CODE OF GOOD
BEHAVIOR" IN THIS FIELD COMBINED WITH
AN OBLIGATION TO ENGAGE IN PRIOR CONSUL-
TATIONS WITHIN THE GROUP CONCERING IN
CENTIVES WHICH DO NOT COMPLY WITH THIS
CODE.)
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